FARM SERVICE AGENCY
FY 2004 and FY 2005 Programs Evaluated by OMB
PART Assessments and Responses

1. Major Program Areas

Farm Loans

- The programs allow family farmers, who could not otherwise obtain agricultural credit, to obtain needed credit.

- The programs improve access to capital and mitigate market losses, including those resulting from disasters, which contributes to:

  - success of farms and ranches
  - a market-based agriculture sector
  - thriving agricultural communities, while promoting viable and productive farms and ranches.

Income Support and Disaster Assistance:

- FSA's income support and disaster assistance programs are key components of USDA's efforts to provide America's farmers and ranchers with an economic safety net to help them maintain their operations during difficult times.

- The programs mitigate market losses, including those resulting from disasters. This contributes to the following:

  - success of farms and ranches
  - a market-based agriculture sector
  - thriving agricultural communities, while promoting viable and productive farms and ranches.

Commodity Operations:

- FSA's commodity operations include management of the U.S. Warehouse Act and acquisition, procurement, storage and distribution of commodities.

- The programs expand market opportunities for farmers, which contributes to:

  - success of farms and ranches
  - a market-based agriculture sector
  - thriving agricultural communities, while promoting viable and productive farms and ranches.

Conservation

- FSA conservation programs help maintain and enhance the nation's natural resources and environment.

- Certain conservation programs mitigate losses from natural disasters. This contributes to the following:

  - success of farms and ranches
  - a market-based agriculture sector
  - thriving agricultural communities, while promoting viable and productive farms and ranches.

Past Performance

FSA is in the process of implementing a Budget and Performance Management System. The cornerstone of that effort is a new Strategic Plan for FY 2005 – 2010. FSA has developed the Framework, which includes a set of long-term measures for the new Plan. The Agency is currently in the process of preparing the new Plan and expects to issue it for public review in October 2005.

PART Findings for FY2004 and FY2005

Agricultural Credit Insurance Fund – Guaranteed Loans

The FY 2005 PART assessment found that the program serves a clear need. Due to a number of factors (e. g., market uncertainty, young/ beginning farmers who lack sufficient credit history, limited resource farmers, geographic isolation), farmers may have difficulty demonstrating creditworthiness to lenders. The program is comparatively cost- effective with low subsidy rates and the delivery mechanism is consistent with program objectives. However, improvements to performance measures are still needed to demonstrate how the program is improving the economic viability of farmers and ranchers. Specific findings include:

- The agency has improved administrative efficiencies.
- While a low loss rate on guaranteed loans is a substitute indicator for the financial viability of borrowers, there is no measure that indicates the program is providing adequate coverage of the intended market or whether or not there are any unmet needs.
- Although the program targets beginning and socially disadvantaged farmers, there is no method to assess whether outreach/ targeting efforts are the most effective.
- Program lacks independent evaluations.

In response to these findings, FSA is making efforts to:

- Conduct a performance - focused review that will include, but is not limited to: analysis of program participants; length of time borrowers remain in program; number of borrowers who "graduate" and return to the program; effectiveness of targeted assistance; and the potential to reduce subsidy rates.
- Revise long - term performance measure to better assess progress toward meeting the goal of improving economic viability of farmers/ ranchers.
- Assess performance targets to ensure they are ambitious.
- Develop an efficiency measure to track administrative expenses and allow comparison among loan programs.

CCC Marketing Loan Payments

The commodity marketing assistance loan and loan deficiency payment (LDP) program purpose is two - fold. The purposes are: 1) facilitate the orderly marketing of major agricultural commodities by providing short- term financing; and 2) provide per- unit revenue support when market prices are relatively low. The commodities for which this program is statutorily mandated are: wheat, feed grains, cotton, rice, oilseeds, peanuts, honey, wool, mohair, and pulses.

As statutorily mandated, the marketing assistance loan and LDP program is targeted at providing support on production of relevant marketing assistance loan commodities. For producers with eligible production of one or more of these
commodities, the program has, for the most part, effectively provided per- unit revenue support on realized production. Specific findings include:

- The program provides the same level of support (on a per unit basis) to all producers, regardless of financial need.
- Marketing loans provide support to producers of major field crops, but do not provide a safety net to producers of other crops that may need assistance.
- Commodity certificate redemption and nonrecourse forfeiture provision allow producers to exceed their payment limits.

Because this is a mandatory program, it is difficult to address program weaknesses through the budget process. The PART affirmed limitations of the marketing loan program, many of which will have to be dealt with legislatively.

In response to the PART findings, FSA suggests:

- That the House and Senate Agriculture Committees examine the issue of payment limits for marketing loan and LDP gains and how they could be tightened.
- More frequent external audits of program effectiveness ought to be conducted.
- Discrepancies between county offices in the delivery of services to producers should be addressed.

Direct Crop Payments

This program provides direct payments (cash) to eligible crop farmers. Roughly 41 percent of farms receive direct payments. Of farms receiving payments, the average farm receives about $17,319 per year. Farmers receive these payments regardless of the type of program crop or the amount of crop they grow. Payments are based on historical production of program crops. This program does not include crop specific price supports, which also support farmer income.

The following conclusions and suggestions are based on findings of the FY 2005 PART review:

- The purpose of the program is clear; however the design could be improved. Direct payments are designed as part of a safety - net for farmers; however they are going to about 41 percent of all farmers, 85 percent of which have annual sales of at least $50,000.
- The program management has devised performance goals that are designed to improve the delivery of the program.
- The program is generally well managed.
- Outside sources have reviewed the program and determined that it has provided support in maintaining farm income, but has not been effective in reducing the need for government subsidies.

Because this is a mandatory program, it is difficult to address program weaknesses through the budget process. The limitations of the direct payment program will have to be dealt with legislatively. In response to PART findings, the Administration will reduce trade barriers through trade negotiations, to create new markets for U. S. agricultural exports, so that farmers will be less reliant on government income support.

Bioenergy:

The Commodity Credit Corporation (CCC) Bioenergy Program helps expand industrial consumption of agricultural commodities by promoting their use in the production of bioenergy (fuel grade ethanol and biodiesel). The program provides financial assistance by subsidizing part of the cost of bioenergy production.

The assessment found that the program serves a clear need in helping to reduce U.S. dependence on traditional energy sources and providing alternative markets for agricultural producers. However, the PART also found that the program is not optimally structured to address differences in bioenergy markets, and is in some ways redundant of other programs that share a similar purpose. Specific findings include:

- Current market conditions for ethanol vary substantially from biodiesel. As a result, the program plays a large role in spurring biodiesel production increases whereas the program is not key in increasing ethanol production because the ethanol market is more mature with an established demand.
- Other efforts have a greater impact on stimulating increased ethanol production-- primarily tax credits, the proposed renewable fuels standard, and California's ban on MTBE. Moreover, this program is only one of a number that provides financial support to construct ethanol facilities (e. g., Business & Industry loans and other USDA grant programs as well as state incentives).
- Better coordination with other U. S. Department of Agriculture (USDA) bioenergy- related programs is needed. Coordination efforts related to commercialization are substantially weaker than that for R&D activities.
- The program made significant improvements in performance measurement. However, targets should be reassessed to make sure they are ambitious in light of available resources.

In response to these findings, the Administration will:

- Ensure a sufficient level of support to growing biodiesel industry.
- Increase collaboration and coordination between related programs.
- Assess performance targets to ensure they are ambitious and reasonable.
- Refer to the response for question 2 for additional information.